

DIRECT TESTIMONY

of

**Dianna Hathhorn
Accountant**

**Accounting Department
Financial Analysis Division
Illinois Commerce Commission**

Request for Increase in Water Rates

Apple Canyon Utility Company

Docket No. 03-0399

August 28, 2003

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1 Q. Please state your name and business address.

2 A. My name is Dianna Hathhorn. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am an Accountant in the Accounting Department of the Financial
7 Analysis Division of the Illinois Commerce Commission ("Commission" or
8 "ICC").

9

10 Q. What is the function of the Commission's Accounting Department?

11 A. The Department's function is to monitor the financial condition of public
12 utilities as part of the Commission's responsibilities under Article IV of the
13 Public Utilities Act and to provide accounting expertise on matters before
14 the Commission.

15

16 Q. Please describe your background and professional affiliation.

17 A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting
18 from Illinois State University in 1993. Prior to joining the Commission in
19 1998, I worked as an internal auditor for another Illinois state agency for
20 approximately 3.5 years. I also have 1.5 years experience in public
21 accounting for a national firm.

22

23 Q. Have you previously testified before this Commission?

24 A. Yes, I have.

25

26 Q. What are your responsibilities in this case?

27 A. I have been assigned to this case by the Manager of the Commission's
28 Accounting Department. I am to review Apple Canyon Utility Company's
29 ("Company") filing, analyze the underlying data and propose adjustments
30 when appropriate.

31

32 Purpose of Testimony

33 Q. What is the purpose of your testimony in this proceeding?

34 A. The purpose of my testimony is as follows:

- 35 1. to present the Commission Staff's ("Staff") adjusted operating
36 statements and rate base of the Company;
37 2. to propose adjustments to the Company's operating statement
38 and rate base concerning add-on taxes, insurance expense,
39 income taxes, health insurance, rate case expense, monthly
40 billing expense, maintenance expense, and pre-1971
41 investment tax credits.

42

43 Q. Are you sponsoring any schedules with your testimony?

44 A. Yes. I prepared the following schedules for the Company, which show
45 data as of, or for the test year ending December 31, 2002:

46 Revenue Requirement Schedules

47 Schedule 1.1 - Statement of Operating Income with Adjustments
48 Schedule 1.2 - Adjustments to Operating Income
49 Schedule 1.3 - Rate Base
50 Schedule 1.4 - Adjustments to Rate Base
51 Schedule 1.5 - Interest Synchronization Adjustment
52 Schedule 1.6 - Gross Revenue Conversion Factor

53

54 Adjustment Schedules

55 Schedule 1.7 - Adjustment for Add-On Taxes
56 Schedule 1.8 - Adjustment to Non-Health Insurance Expense
57 Schedule 1.9 - Adjustment to Income Taxes
58 Schedule 1.10- Adjustment to Health Insurance Expense
59 Schedule 1.11- Adjustment to Rate Case Expense
60 Schedule 1.12 - Adjustment to Monthly Billing Expense
61 Schedule 1.13- Adjustment to Normalize Maintenance Expense
62 Schedule 1.14 - Adjustment for Pre-1971 Investment Tax Credits

63

64 Revenue Requirement Schedules

65 Q. Please describe Schedule 1.1, Statement of Operating Income with
66 Adjustments.

67 A. Schedule 1.1 derives the required revenue at the Staff proposed rate of
68 return. Column (B) presents the Company's pro forma operating
69 statement at present rates for the test year as reflected on Company
70 Schedule B. Column (C) reflects the total of all Staff adjustments shown
71 on Schedule 1.2. Column (D) reflects the pro forma operating statement
72 at present rates per Staff. Column (E) presents the Company proposed
73 increase to revenue. Column (F) adjusts revenue to reflect Staff's Gross
74 Revenue Conversion Factor. Column (G) is Staff's Operations and
75 Maintenance ("O&M") Statement inclusive of the Company's proposed
76 revenue increase. Column (H) is the necessary reduction from the
77 Company's proposed revenues, adjusted for Staff's Gross Revenue
78 Conversion Factor, to arrive at Staff's computed revenue requirement as
79 reflected in Column (I). Net Operating Income in Column (I), line 21, is
80 the product of Rate Base, line 22, and Rate of Return, line 23. Column (I),
81 line 24, is the difference between current revenues and required revenues
82 as determined by Staff. Column (I), line 25, is Staff's calculated
83 percentage change in revenues.

84

85 Q. Please describe Schedule 1.2, Adjustments to Operating Income.

86 A. Schedule 1.2 identifies Staff's adjustment to Operating Income. The
87 source of each adjustment is shown in the heading of each column.
88 Column (Q) from page 2 of 2 is carried forward to Schedule 1.1, Column
89 (C).

90

91 Q. Please describe Schedule 1.3, Rate Base.

92 A. Schedule 1.3 compiles Staff's rate base. Column (B) reflects the
93 Company's proposed rate base. Column (C) summarizes Staff's
94 adjustments to rate base. Column (D) is the net of Columns (B) and (C),
95 and reflects Staff's computed rate base.

96

97 Q. Please describe Schedule 1.4, Adjustments to Rate Base.

98 A. Schedule 1.4 identifies Staff's adjustments to rate base. The source of
99 each adjustment is shown in the heading of each column. Column (I) is
100 carried forward to Schedule 1.3, Column (C).

101

102 Interest Synchronization

103 Q. Please explain Schedule 1.5, Interest Synchronization Adjustment.

104 A. Schedule 1.5 computes the interest component of the revenue
105 requirement. The interest expense (component) is computed by
106 multiplying the rate base by weighted cost of debt. The calculated interest
107 expense is then compared against the interest expense used by the

108 Company in its computation of test year income tax expense. The tax
109 effect of the difference in interest expense is the adjustment for interest
110 synchronization. The effect of this adjustment is to ensure that the
111 revenue requirement reflects the tax savings generated by the interest
112 component of the revenue requirement.
113

114 Gross Revenue Conversion Factor

115 Q. What is the purpose of Schedule 1.6, Gross Revenue Conversion Factor?

116 A. Schedule 1.6 presents my proposed adjustment to the gross revenue
117 conversion factor ("GRCF"). The GRCF is applied to the operating
118 income deficiency to derive the total amount of revenue required for the
119 income deficiency and the associated increase in income tax expense and
120 uncollectible expense change. It is based upon the applicable federal tax
121 rate, State income tax rate, and uncollectible rate. This adjustment to the
122 various components of the GRCF is carried forward to Schedule 1.1,
123 Column (F).
124

125 Adjustment for Add-On Taxes

126 Q. Please describe Schedule 1.7, Adjustment for Add-On Taxes

127 A. Schedule 1.7 reflects my proposed adjustment to operating expense to
128 disallow public utility taxes at present rates. Gross revenues taxes are an

129 add-on charge to customers' bills, are not an actual operating expense of
130 the utility, and therefore, should not be a part tariffed rates. According to
131 the Company's response to Staff Data Request DLH-2.10, these amounts
132 are not recorded in revenues; though, so no corresponding adjustment is
133 needed to the revenues amounts in the revenue requirement. My
134 adjustment is consistent with the Commission's practice to remove add-
135 on taxes from both revenues and expenses.

136

137 Adjustment to Non-Health Insurance Expense

138 Q. Please describe Schedule 1.8, Adjustment to Non-Health Insurance
139 Expense.

140 A. Schedule 1.8 reflects my proposed adjustment to operating expense to
141 disallow amounts from the Company's pro forma increase to insurance
142 expense for amounts that are not known and measurable. The
143 Company's requested increase is based on calculated amounts for auto,
144 property, and worker's compensation premiums for 2004. My adjustment
145 uses the 2003 rates for the 12-month period. The Company's estimate is
146 based only on the percentage change in premiums from 2003 to 2004.
147 The Company stated it would not receive its 2004 rates until
148 approximately September 2003. (Company response to Staff Data
149 Request DLH-3.01) If this timing is correct and the documentation is
150 provided to me, I will revise my adjustment in rebuttal testimony to reflect

151 the most recent known and measurable insurance rates. Until that time,
152 the 2003 rates are proper to use.

153

154 Adjustment to Income Taxes

155 Q. Please describe Schedule 1.9, Adjustment to Income Taxes.

156 A. Schedule 1.9 presents my adjustment to state and federal income tax
157 expense in the test year based on the use of a unitary state income tax
158 rate. The Company pays its Illinois state income tax as a member of a
159 unitary business group. Therefore, it is appropriate to use a unitary tax
160 rate in determining the revenue requirement. This issue was previously
161 litigated in Docket No. 98-0046, which was a rate case of an affiliate of the
162 Company that uses the same income tax expense methods. The
163 Commission concluded in that docket that the unitary tax rate is proper for
164 ratemaking purposes.

165

166 Q. How was the unitary tax rate calculated?

167 A. The unitary tax rate that I use in my proposed adjustment is the average
168 of the effective unitary tax rates for 1999 and 2000, which were calculated
169 by dividing Utilities, Inc.'s Illinois state income tax liability for the
170 respective year by its total state taxable income for that year.

171

172 Q. Why was the effective unitary tax rate for 2002 or 2001 not used in the
173 calculation of the unitary tax rate for the test year?

174 A. The Company has not yet filed its 2002 taxes. Also, the 2001 Illinois state
175 income tax liability for Utilities, Inc. is zero; therefore, there is no Illinois
176 state income tax rate for 2001. For ratemaking purposes, it is reasonable
177 to calculate a unitary tax rate based on the two most recent years in which
178 Utilities, Inc. incurred Illinois income tax liability.

179

180 Adjustment to Health Insurance Expense

181 Q. Please describe Schedule 1.10, Adjustment to Health Insurance Expense.

182 A. Schedule 1.10 presents my adjustment to operating expense to reflect the
183 most recent information available to calculate pro forma health insurance
184 expense over a 12-month period. The Company's adjustment is based
185 upon the percentage change of the affected health and dental insurance
186 accounts at 3/31/2003 compared to the same accounts at 3/31/2002,
187 resulting in a 106.08% increase. My adjustment uses the 6/30/2003
188 account balances to calculate an annualized 2003 expense. I then
189 compare my calculated 12/31/2003 amount to the 12/31/2002 balance to
190 determine the estimated percentage increase over the entire year, which
191 is 27.34%. As my calculation is based upon more recent actual Company
192 balances over a 12-month period, it is a better estimate of the increased
193 cost of health and dental insurance.

194

195 Adjustment to Rate Case Expense

196 Q. Please describe Schedule 1.11, Adjustment to Rate Case Expense.

197 A. Schedule 1.11 reflects my proposed adjustment to operating expense to
198 reduce the amount of Company hours on this case, and to change the
199 amortization period from three to five years. The Company estimated one
200 of its employees would spend 20 hours on this case, however timesheets
201 provided by the Company show that this employee has only spent about
202 two hours on this case through 6/30/2003. (Company response to Staff
203 Data Request DLH-8.02) My adjustment is based upon an estimate that
204 this employee will spend about as much time in the last phase of this case
205 as the beginning, which calculates to 5 hours total for this employee.
206 Finally, the Company is seeking to recover the cost of the rate case over
207 three years. I propose that these costs be recovered over 5 years. The
208 Company's current rate structure was approved in Docket No. 92-0401 by
209 the Commission, dated August 4, 1993. Given the amount of time that
210 has elapsed since then, I believe that five years is a more appropriate and
211 reasonable amortization period.

212

213 Adjustment to Monthly Billing Expense

214 Q. Please describe Schedule 1.12, Adjustment to Monthly Billing Expense.

215 A. Schedule 1.12 reflects my proposed adjustment to operating expense to
216 reflect updated costs for the Company's change to monthly billing. The
217 cost information provided in discovery, in data request response DLH-
218 3.06, differed from the amounts filed by the Company in its direct case.
219 Therefore, my adjustment is necessary to reflect the proper amounts for
220 the Company's pro forma adjustment for changing to monthly billing. It is
221 my understanding that the Company agrees with this adjustment.

222

223 Adjustment to Normalize Maintenance Expense

224 Q. Please describe Schedule 1.13, Adjustment to Normalize Maintenance
225 Expense.

226 A. Schedule 1.13 reflects my proposed adjustment to operating expense to
227 normalize the test year amount of certain maintenance expenses. My
228 review of summary maintenance accounts 401.1X and 401.2B showed
229 the balances were significantly larger than in previous years 1998 through
230 2001. (See lines 6 through 10 on Schedule 1.13) The Company explained
231 the reason was the higher number of main breaks in 2002 compared to
232 prior years, as shown below: (Company response to Staff Data Requests
233 DLH-5.01 and DLH-7.01)

Year	Number of Main Breaks
2002	12
2001	2

2000	0
1999	5
1998	0

234 Because of the unusually high number of main breaks and related
235 maintenance and testing expense in the test year, it is reasonable to
236 adjust the test year to a more normal, recurring level of these expenses.
237 My adjustment averages the expenses over the 5-year period 1998
238 through 2002.

239

240 Adjustment for Pre-1971 Investment Tax Credits

241 Q. Please describe Schedule 1.14, Adjustment for Pre-1971 Investment Tax
242 Credits ("ITCs").

243 A. Schedule 1.14 reflects my proposed adjustment to rate base to disallow
244 the unamortized balance from pre-1971 ITCs. The Company's response
245 to Staff Data Request DLH-2.04 reflects that the Company is treating all
246 ITCs the same, whether or not they occurred before 1971. However, prior
247 to 1971, the Internal Revenue Code did not forbid the deduction of the
248 unamortized ITCs from rate base. Absent specific instructions from
249 Congress, this Commission has taken the position that the pre-1971 ITCs
250 represent funds not provided by the investors. Funds not provided by
251 investors are a source of cost-free capital to the Company, and therefore,
252 should be deducted from rate base.

253

254 Q. Does this conclude your prepared direct testimony?

255 A. Yes, it does.

Docket No. 03-0399
ICC Staff Exhibit 1.0
Schedule 1.1

[illegible]

Apple Canyon Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 1.5)	Add-On Taxes (Sch. 1.7)	Non-Health Insurance (Sch. 1.8)	Income Taxes (Sch. 1.9)	Health Insurance (Sch. 1.10)	Rate Case Expense (Sch. 1.11)	Monthly Billing (Sch. 1.12)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(2,132)	-	(5,648)	(795)	(385)	(8,961)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(244)	-	-	-	-	-	(244)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(244)	(2,132)	-	(5,648)	(795)	(385)	(9,205)
16	Before Income Taxes	-	(244)	(2,132)	-	(5,648)	(795)	(385)	(9,205)
17	State Income Tax	320	5	40	(86)	106	15	7	407
18	Federal Income Tax	5,693	81	711	(861)	1,884	265	128	7,901
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	6,013	(158)	(1,381)	(947)	(3,658)	(515)	(250)	(897)
21	NET OPERATING INCOME	\$ (6,013)	\$ 158	\$ 1,381	\$ 947	\$ 3,658	\$ 515	\$ 250	\$ 897

Apple Canyon Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Normalize Maintenance Expense (Sch. 1.13)	Unsubst. Plant (Sch. 2.2)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -	-	-	-	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	(12,555)	-	-	-	-	-	(12,555)
6	General Expenses	(8,961)	-	-	-	-	-	-	(8,961)
7	Depreciation	-	-	(166)	-	-	-	-	(166)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(244)	-	-	-	-	-	-	(244)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	(9,205)	(12,555)	(166)	-	-	-	-	(21,926)
17	State Income Tax	407	236	3	-	-	-	-	646
18	Federal Income Tax	7,901	4,189	55	-	-	-	-	12,145
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(897)	(8,130)	(108)	-	-	-	-	(9,135)
21	NET OPERATING INCOME	\$ 897	\$ 8,130	\$ 108	\$ -	\$ -	\$ -	\$ -	\$ 9,135

Apple Canyon Utility Company
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 1.4)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 2,075,874	\$ (74,350)	\$ 2,001,524
2	Accumulated Depreciation	(461,236)	(139,472)	(600,708)
3		-	-	-
4	Net Plant	1,614,638	(213,822)	1,400,816
5	Additions to Rate Base			
6	Water Service Corporation	45,471	-	45,471
7	Cash Working Capital	24,840	(3,027)	21,813
8	Deferred Tank Maintenance	-	1,942	1,942
9		-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(568,586)	154,386	(414,200)
18	Accumulated Deferred Income Taxes	(44,029)	1,555	(42,474)
19	Unamortized Investment Tax Credits	-	(1,049)	(1,049)
20	Customer Advances for Construction	-	(450,000)	(450,000)
21		-	-	-
22		-	-	-
23	Rate Base	\$ 1,072,334	\$ (510,015)	\$ 562,319

Apple Canyon Utility Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Pre-1971 ITCs (Sch. 1.14)	Cash Working Capital (Sch. 2.1)	Unsubstantiated Additions (Sch. 2.2)	CIAC (Sch. 2.3)	Customer Advances for Construction (Sch. 2.4)	Plant Held for Future Use (Sch. 2.5)	Previous Orders (Sch. 2.6)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ (5,068)	\$ -	\$ -	\$ (40,534)	\$ (23,019)	\$ (68,621)
2	Accumulated Depreciation	-	-	397	(17,878)	-	-	(121,991)	(139,472)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(4,671)	(17,878)	-	(40,534)	(145,010)	(208,093)
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(3,027)	-	-	-	-	-	(3,027)
8	Deferred Tank Maintenance	-	-	-	-	-	-	-	-
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Contributions in Aid of Construction	-	-	-	17,878	-	-	136,508	154,386
18	Accumulated Deferred Income Taxes	-	-	119	-	-	-	1,436	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	-	-	-	-	(450,000)	-	-	(450,000)
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,049)	\$ (3,027)	\$ (4,552)	\$ -	\$ (450,000)	\$ (40,534)	\$ (7,066)	\$ (506,228)

Apple Canyon Utility Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Source)	Pro Forma Plant (Sch. 2.7)	Tank Painting (Sch. 2.8)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	Gross Plant in Service	\$ (68,621)	\$ (5,729)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (74,350)
2	Accumulated Depreciation	(139,472)	-	-	-	-	-	-	(139,472)
3		-	-	-	-	-	-	-	-
4	Net Plant	(208,093)	(5,729)	-	-	-	-	-	(213,822)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(3,027)	-	-	-	-	-	-	(3,027)
8	Deferred Tank Maintenance	-	-	1,942	-	-	-	-	1,942
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	154,386	-	-	-	-	-	-	154,386
18	Accumulated Deferred Income Taxes	1,555	-	-	-	-	-	-	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	(450,000)	-	-	-	-	-	-	(450,000)
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (506,228)	\$ (5,729)	\$ 1,942	\$ -	\$ -	\$ -	\$ -	\$ (510,015)

Apple Canyon Utility Company
 Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 562,319 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	25,248
4	Company Interest Expense	<u>42,313</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(17,065)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	<u>\$ 320</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ 5,693</u>

(1) Source: ICC Staff Ex. 1.0, Schedule 1.3, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Docket No. 03-0399
ICC Staff Exhibit 1.0
Schedule 1.6

Apple Canyon Utility Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	2.8300%	<u>0.028300</u>	
3	State Taxable Income		0.971700	1.000000
4	State Income Tax	1.8763%	<u>0.018232</u>	<u>0.018763</u>
5	Federal Taxable Income		0.953468	0.981237
6	Federal Income Tax	34.0000%	<u>0.324179</u>	<u>0.333621</u>
7	Operating Income		<u>0.629289</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.589095</u>	<u>1.544125</u>

Docket No. 03-0399
ICC Staff Exhibit 1.0
Schedule 1.7

Apple Canyon Utility Company
Adjustment for Add-On Taxes
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Public Utility Taxes at present rates per Staff	\$ -	
2	Public Utility Taxes at present rates per Company	<u>244</u>	Company workpaper f
3	Staff Proposed Adjustment	<u>\$ (244)</u>	Line 1 - line 2

Apple Canyon Utility Company
Adjustment to Non-Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	2002 Insurance Expense for WSC	\$ 1,167,898	Company workpaper b
2	Estimated Auto Increase	71,055	Schedule 1.8, p. 2, line 6
3	Estimated Workers Comp. Increase	42,372	Schedule 1.8, p. 2, line 12
4	Estimated Property Increase	23,193	Schedule 1.8, p. 2, line 18
5	Total Pro Forma Insurance Expense for WSC	\$ 1,304,518	Sum of lines 1 through 4
6	Apple Canyon Allocation factor	0.7250%	Company workpaper b
7	Apple Canyon pro forma insurance expense	\$ 9,458	Line 5 x line 6
8	Amount per Company	11,590	Company workpaper b
9	Staff Proposed Adjustment	<u>\$ (2,132)</u>	Line 7 - line 8

Apple Canyon Utility Company
Adjustment to Non-Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	<u>Calculation of Estimated Auto Increase:</u>		
2	2003 Monthly Rate	\$ 23,346	Per Company prepared schedule
3	x 12 months	12	
4	2003 Auto Insurance Cost	\$ 280,152	Line 2 * line 3
5	2002 Auto Insurance Cost	209,097	Per Company prepared schedule
6	Difference	<u>\$ 71,055</u>	Line 4 - line 5
7	<u>Calculation of Estimated Workers Comp. Increase:</u>		
8	2003 Monthly Rate	\$ 23,233	Per Company prepared schedule
9	x 12 months	12	
10	2003 Workers Comp. Cost	\$ 278,796	Line 8 * line 9
11	2002 Workers Comp. Cost	236,424	Per Company prepared schedule
12	Difference	<u>\$ 42,372</u>	Line 10 - line 11
13	<u>Calculation of Estimated Property Ins. Increase:</u>		
14	2003 Monthly Rate	\$ 10,115	Per Company prepared schedule
15	x 12 months	12	
16	2003 Property Ins. Cost	\$ 121,380	Line 14 x line 15
17	2002 Property Ins. Cost	98,187	Per Company prepared schedule
18	Difference	<u>\$ 23,193</u>	Line 16 - line 17

Apple Canyon Utility Company
 Adjustment to Income Taxes
 For the Test Year Ending December 31, 2002

Line No.	Description	Amount
(a)	(b)	(c)
1	Total Operating Revenue	\$ 252,301
2	Total Operating Expense	(241,244)
3	Synchronized Interest	(42,313)
4	Net Income Before Taxes	\$ (31,256)
5	Unitary Rate	1.8763%
6	State Income Tax at Unitary Rate (Line 4 x Line 5)	\$ (586)
7	Net Income Before Federal Income Tax	\$ (30,670)
8	Federal Income Tax Rate	34.0000%
9	Federal Income Tax (Line 7 x Line 8)	\$ (10,428)
10	State Income Tax Per Staff (Line 6)	\$ (586)
11	State Income Tax Per Company	(500)
12	Adjustment	\$ (86)
13	Federal Income Tax Per Staff (Line 9)	\$ (10,428)
14	Federal Income Tax Per Company	(9,567)
15	Adjustment	\$ (861)

Source:
 Lines 1&2
 Line 3
 Line 5
 Line 8
 Lines 11, 14

Schedule 1.1, Column B
 Company Schedule B
 Schedule 1.90, Page 2, Line 3
 Company Worksheet W/P (h)
 Company Schedule B, with deferred taxes reclassed per amounts in trial balance

Apple Canyon Utility Company
Adjustment to Income Taxes
For the Test Year Ending December 31, 2002

Line No. (a)	Description (b)	Amount (c)
1	Unitary Tax Rate for 1999	<u>1.5014%</u>
2	Unitary Tax Rate for 2000	<u>2.2512%</u>
3	Unitary Tax Rate for Test Year	<u>1.8763%</u>

Source:

Line 1 Schedule 1.9, Page 3, Line 25
Line 2 Schedule 1.9, Page 4, Line 25
Line 3 (Line 1 + Line 2)/2

Apple Canyon Utility Company
 Adjustment to Income Taxes
 For the Test Year Ending December 31, 2002

Calculation of Unitary Tax Rate for the Year 1999

Line No.	Description	Line 2 - line 3	State Income Tax	State Taxable Income	Gains on Sale of Assets	Adj. State Taxable Income
1	Apple Canyon	22,327	2,466	24,793		24,793
2	Carmelot	38,435	2,645	41,280		41,280
3	Cedar Bluff	3,694	217	3,911		3,911
4	Chammar	4,197	298	4,495		4,495
5	Cherry Hill	21,757	1,805	23,562		23,562
6	Clarendon	25,588	1,727	27,315		27,315
7	County Line	7,806	714	8,520		8,520
8	Del Mar	4,048	330	4,378		4,378
9	Ferson Creek	53,779	2,897	56,676		56,676
10	Galea Territory	131,694	9,083	140,777		140,777
11	Great Northern	3,702	65	3,767		3,767
12	Harbor Ridge	20,780	2,296	23,076		23,076
13	Killarney	1,741		1,741		1,741
14	Lake Holiday	92,793	6,223	99,016		99,016
15	Lake Maran	29,775	2,884	32,659		32,659
16	Lake Wildwood	63,310	4,533	67,843		67,843
17	Medina	49,390	5,202	54,592		54,592
18	Northern Hills	77		77		77
19	Valentine	11,124	1,369	12,493		12,493
20	Walk-Up Woods	11,634	1,174	12,808		12,808
21	Whispering Hills	96,818	6,230	103,048		103,048
22	Utilities, Inc.	3,010,016	70,746	3,080,762		2,096,009
23	Total	3,704,485	123,104	3,827,589	(984,753)	2,842,836
24	Illinois Tax Liability					42,682
25	Unitary Rate					1.5014%

Source:
 Lines 1-22
 Line 24
 Line 25
 Provided by the Company
 Utilities, Inc. tax return
 Line 24/line 23

Apple Canyon Utility Company
 Adjustment to Health Insurance Expense
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 10,330	Note 1
2	Pro forma health insurance expense per Company	<u>15,978</u>	Company workpaper e
3	Staff Proposed Adjustment	<u>\$ (5,648)</u>	Line 1 - line 2
<u>Note 1:</u>			
	2002 Apple Canyon health insurance expense	\$ 8,112	Company workpaper e
	Pro forma increase per Staff	<u>27.34%</u>	Schedule 1.10, page 2, line 11
	Pro forma health insurance expense per Staff	<u>\$ 10,330</u>	Line 8 * line 9

Apple Canyon Utility Company
 Adjustment to Health Insurance Expense
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
	<u>Water Service Corp. Balance at 6/30/2003:</u>		
1	Health Insurance Premiums	\$ 225,088	Company response to DLH-8.01
2	Dental Premiums	10,830	Company response to DLH-8.01
3	Health Insurance Reimbursements	1,204,228	Company response to DLH-8.01
4	Health Costs and Other	20,432	Company response to DLH-8.01
5	Dental Insurance Reimbursements	68,283	Company response to DLH-8.01
6	Employees Insurance Deductions	<u>(237,728)</u>	Company response to DLH-8.01
7	Total	\$ 1,291,133	
8	Average 2003 monthly expense	\$ 215,189	Line 7 divided by 6
9	Annualized 2003 total expense	\$ 2,582,266	Line 8 * line 9
10	2002 total expense	\$ 2,027,835	Provided by Company
11	Percentage change	<u>27.34%</u>	(Line 9 / line 10) - 1

Apple Canyon Utility Company
 Adjustment to Rate Case Expense
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 811	Note 1
2	Rate case expense per Company	<u>1,606</u>	Company workpaper d
3	Staff Proposed Adjustment	<u>\$ (795)</u>	Line 1 - line 2
<u>Note 1: Water Service Personnel hours</u>			
	Capitalization rate-SML	\$ 51	Company workpaper d
	SML estimated hours per Staff	<u>5</u>	
	SML estimated cost per Staff	<u>\$ 255</u>	Line 8 * line 9
	Remainder of rate cases expenses unchanged by Staff	\$ 3,799	Company workpaper d
	Total rate case expense per Staff	<u>\$ 4,054</u>	
	5-year amortization period	<u>\$ 811</u>	

Docket No. 03-0399
iCC Staff Exhibit 1.0
Schedule 1.12

Apple Canyon Utility Company
Adjustment to Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Monthly Billing Expense adjustment per Staff	\$ 3,092	Company response to DLH-3.06
2	Monthly Billing Expense adjustment per Company	<u>3,477</u>	Company workpaper c
3	Staff Proposed Adjustment	<u>\$ (385)</u>	Line 1 - line 2

Apple Canyon Utility Company
Adjustment to Normalize Maintenance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Maintenance and Testing expense per Staff	\$ 6,782	Line 12.
2	Maintenance and Testing expense per Company	19,337	Per Company Trial Balance, Account 401.1X \$13,014 and 401.2B \$6,323
3	Staff Proposed Adjustment	<u>\$ (12,555)</u>	Line 1 - line 2
4	<u>Calculation of Normalized Maint. Expense</u>		
5	<u>Summary Accounts 401.1X and 401.2B:</u>		
6	1998	\$ 6,565	Company response to DLH-7.01
7	1999	1,924	Company Trial Balance
8	2000	2,536	Company Trial Balance
9	2001	3,547	Company Trial Balance
10	2002	<u>19,337</u>	Company Trial Balance
11	Total	\$ 33,909	Sum of lines 6-10
12	Average over 5 years	<u>\$ 6,782</u>	Line 11 / 5

Docket No. 03-0399
ICC Staff Exhibit 1.0
Schedule 1.14

Apple Canyon Utility Company
Adjustment for Pre-1971 Investment Tax Credits
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pre-1971 Unamortized ITC per Staff	\$ (1,049)	Company response to DLH-2.04
2	Pre-1971 Unamortized ITC per Company	<u>0</u>	
3	Staff Proposed Adjustment to Rate Base	<u>\$ (1,049)</u>	Line 1 - line 2